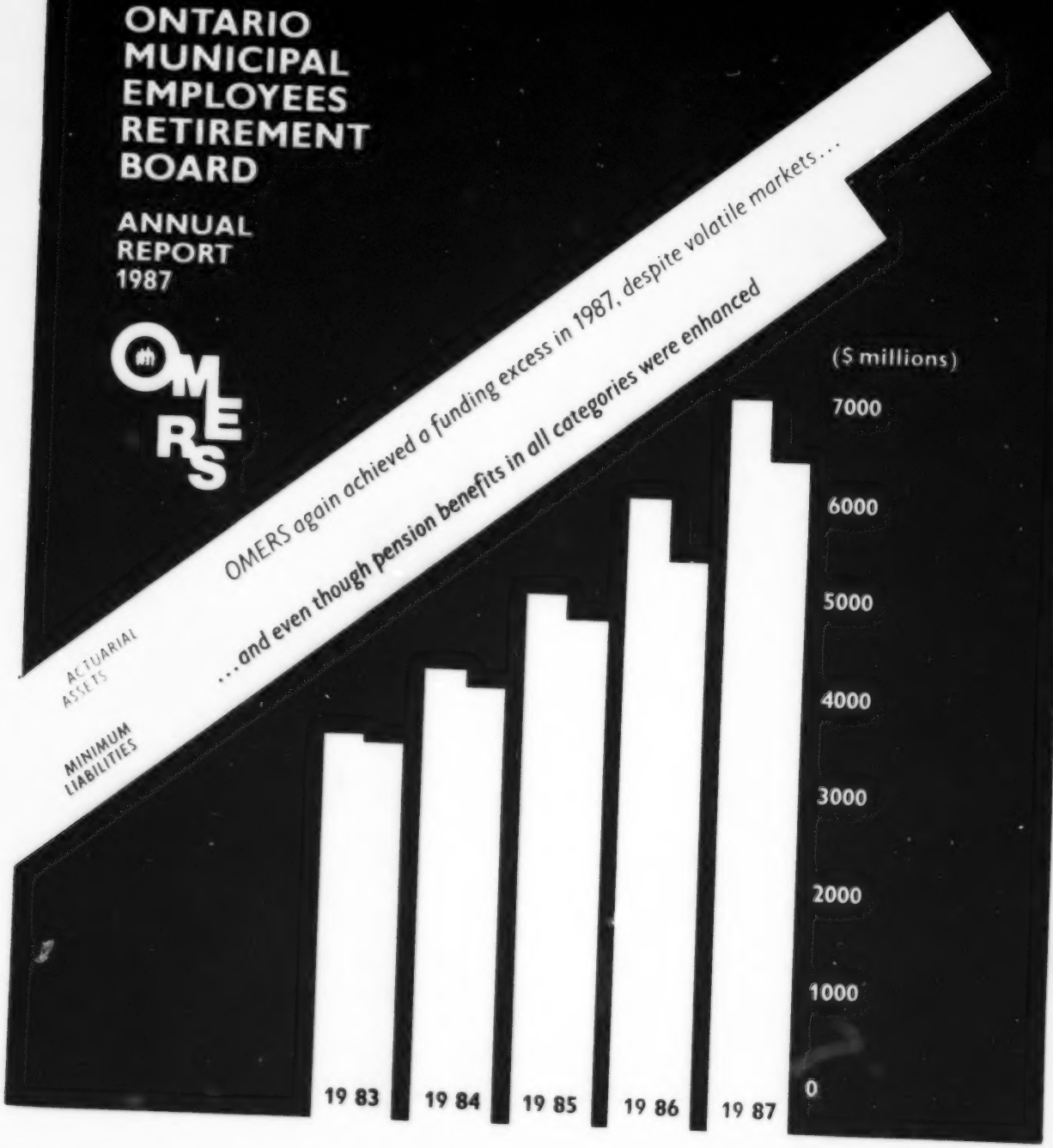
ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

ANNUAL REPORT 1987

OMERS

OMERS again achieved a funding excess in 1987, despite volatile markets . . .

. . . and even though pension benefits in all categories were enhanced



ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

Established in 1962 by an Act of the Ontario Legislature, the Ontario Municipal Employees Retirement System is a pension fund serving a diversified membership of employees of local government.

In addition to 1,077 municipalities, local boards and schoolboards, OMERS also manages the pension plans of Ryerson Polytechnical Institute and the Colleges of Applied Arts and Technology on a management fee basis.

OMERS is financed by equal contributions from member municipalities and their employees. To meet its obligations to present and future members, OMERS must invest their funds and reinvest the returns prudently and effectively.

OMERS is a contributory defined benefit plan, but ad hoc increases and improvements to retirement benefits have been made over the years without any increase in member and employer contribution levels. These improvements to the pension benefits were made possible by sound and stable financial planning and because of the strong investment performance of the OMERS fund.

The OMERS Fund currently is invested in a widely diversified portfolio of capital market investments including equities, bonds, short-term money market securities, mortgages, real estate, term loans and venture capital.

OMERS is managed by a Board whose eleven members are appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Municipal Affairs of Ontario. The Board is unique to the pension world with the majority of the members of the Board being employees of local governments contributing to the plan. Other members are elected or appointed officials of municipalities and local boards of municipalities. Thus OMERS is managed by and for local government employees and employers with the sole and dedicated purpose of providing an appropriate and uniform retirement income at stable and reasonable contribution rates.

MISSION STATEMENT

OMERS is operated by and for municipal employees and employers to:

- provide appropriate, uniform and portable pension benefits to members,
- ensure reasonable and stable member and employer contribution rates,
- meet at least liabilities for present and future pension payments through the prudent investment of funds,
- communicate the pension system to participating employers for effective local administration,
- distribute timely and useful information to plan members on their pension benefits,
- present the interests of members and employers to the Province and various pension regulating agencies.

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CHAIRMAN'S REPORT

Without question, 1987 was a test of strength for OMERS. Volatile capital markets throughout the year, the October stock collapse that wiped out trillions of dollars in wealth around the world, and fundamental changes to pension legislation provided an unprecedented series of challenges to our Board, committees and staff.

We are extremely pleased to report that OMERS came through these tests with flying colours. By the end of the year, your pension fund was stronger than ever, benefits had been enhanced, and we had once again achieved a funding excess in terms of our actuarial liabilities – meaning that OMERS is in excellent shape to meet its obligations for the foreseeable future.

Details of OMERS' activities and performance in 1987 can be found elsewhere in this report. To touch briefly on the highlights of the year:

- the number of contributing members increased to 146,825 from 140,120 as the number of pensioners grew from 33,340 to 36,146;
- pension contributions increased by 15% over the previous year to reach $532 million in 1987 – reflecting the growth in membership and higher income levels of members;
- investment income was $947 million compared to $819 million in 1986;
- OMERS' investment growth rate was 5.8% in 1987 compared with the SEI median fund return of 4.4%;
- current pensions were increased by 4.2%, matching the growth of the consumer price index;
- the needs of older pensioners were addressed by a one-time catch up adjustment, which increased their pensions up to at least 60% of the CPI increase since each pension began;
- survivors' benefits are being increased from 50% to 60%; and the rate of interest on refunds was increased to 6.5%

With the progress made in 1987, OMERS is well placed to implement changes arising from the Ontario Pension Benefits Act, 1987, affecting the investment area, communications to members and your pension fund operations.

Further changes are undoubtedly in store: the federal government's tax reform measures will have an impact on the pension area; and the government of Ontario has been looking at potential policy changes through its Task Force on Investment of Public Sector Pension Funds and its Task Force on Inflation Protection.

As part of this process, OMERS has been playing its role in protecting the interests of our membership, and has presented briefs outlining the Board's position with respect to these vital issues. In our brief to the Ontario Task Force, we stated:

1) OMERS fulfills its responsibility of providing retirement income to members by operating as a business and investing according to sound business principles, and has achieved above-average growth;
2) While our successful investment performance has contributed to the economy of Ontario, we would oppose any policy directing public sector pension investment into specific programs for economic enhancement;
3) Although investment in capital markets has been very successful for OMERS, we believe the phasing of large funds into capital markets from non-marketable areas should be done carefully and in an orderly fashion to avoid disruption in the marketplace. This would also apply to investment of CPP funds;
4) Further centralization of public service pension funds in Ontario could have a detrimental affect on the marketplace.

These are important principles, and they guide the Board and staff of OMERS as we work to meet the present, future and changing needs of our membership.

On behalf of the Board,

C.M. Beckstead, Chairman
March 23, 1988

PENSION PROGRAM

While meeting the needs of an ever expanding membership, the Pension Division responded to significant operational changes in 1987, in response to the revised Ontario Pension Benefits Act, 1987. Some measures took effect in 1987 and others are pending in 1988.

The Pension Division has worked hard to prepare for the pension reform changes and moved quickly in 1987 to implement the increase of survivors' benefits from 50% to 60%, and the increase in the rate of interest allowed on pension refunds.

In concert with the Finance and Administration Division, the Pension Division has been working to upgrade the Pension Administration System. In addition to providing for on-line processing and inquiry, the upgraded system will produce the commuted pension values required under pension reform.

1987 PENSION PROFILE

During 1987, pensions paid out by OMERS totalled $165.3 million, an increase of 24%, as the number of pensioners climbed by over 8%, from 33,340 in 1986 to 36,146 at the end of 1987.

Current contributing members totalled 146,825 at year end – up by 5% from the previous year. This growing membership increases OMERS' future obligations and is taken into account by the actuaries as they evaluate the OMERS fund.

($ Millions)	Actuarial valuation results As at January 1	
Actuarial liabilities	1987	1986
Present value of:		
Pensions under payment	$1,517.2	$1,186.9
Vested deferred benefits	41.3	34.3
Benefits for present contributors and their survivors	4,907.5	4,172.4
Additional voluntary contribution liability	.7	.7
Total liabilities	6,466.7	5,394.3
*Fund assets at January 1	7,068.4	5,962.9
Funding Excess	$ 601.7	$ 568.6

*As valued by the actuary.

OMERS' latest actuarial valuation prepared by the Wyatt Company indicates that the current financial position of the Fund and current contribution levels are sufficient to fund future benefits.

In preparing the valuation, actuaries assumed salary increases averaging 6% a year, and fund earnings of 7% a year to the retirement of a member and 6% thereafter. The actuaries also assumed annual increases of 5% on the maximum pensionable earnings used under the Canada Pension Plan – which is $26,500 in 1988.

From January 1, 1986 to January 1, 1987, the changes to the actuarial valuation include additional liabilities of $260 million created by revised mortality assumptions. The 85 factor for normal retirement age 60 members and a 6.5% increase to pensioners also had an impact.

Participants in the System

EMPLOYERS

At the end of 1987, there were 512 municipalities, 133 school boards and 432 other local boards participating in OMERS for a total of 1,077 participating employers – an increase of 8 employers.

OMERS represents a pooling of large and small municipal employers. More than half of the participating employers have fewer than 25 employees who are members of the system and for these the average is 9 members each. At the other extreme, 60% of the membership is employed by 66 employers with an average of 1,340 members each.

CONTRIBUTING MEMBERS

In the past decade, OMERS' membership has increased from 115,615 to 146,825.

Membership activity in 1987 was as follows:

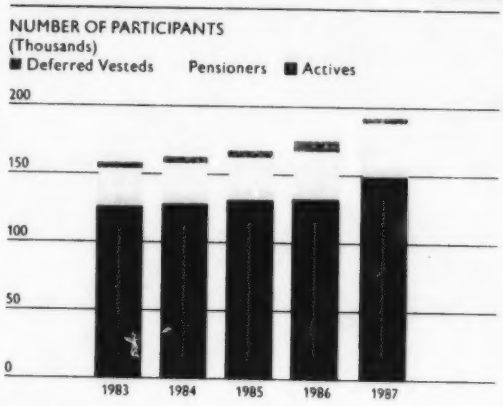
Contributing members, January 1, 1987		140,120
Members enrolled during 1987		18,856
		158,976
Less: terminations, transfers, disabled and deaths	9,142	
retirements	3,009	
	12,151	
Contributing members, December 31, 1987		146,825

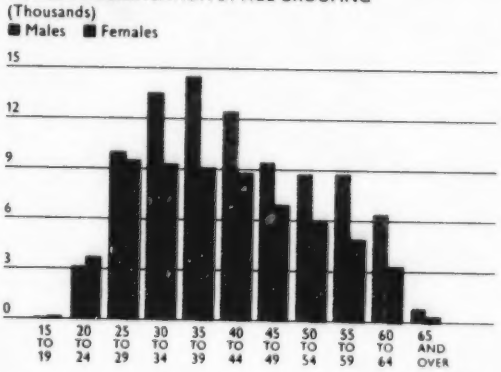
In 1987, over half of OMERS' members were employees of municipalities, one quarter were employees of school boards and the remainder were employees of other local boards. Two out of every five members were female and one in eight members was a policeman or fireman with a normal retirement age of 60 years.

PENSIONERS

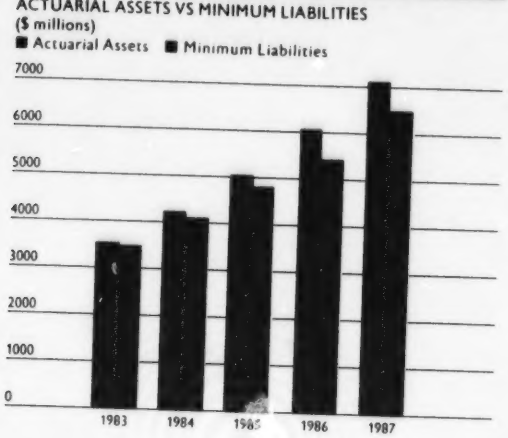
The number of pensioners continued to grow, as follows:

Pensioners, January 1, 1987	33,340
Additions during the year	3,997
Deletions:	
death of pensioners	1,145
other causes	46
	1,191
Pensioners, December 31, 1987	36,146





ACTUARIAL ASSETS VS MINIMUM LIABILITIES
($ millions)



As can be seen from the table of actuarial valuation results and the assets/liabilities chart, a significant funding excess is indicated. However, it is important to remember that the valuation was completed at the beginning of 1987.

Further plan changes that were made in 1987, including pension reform, pension increases and improvements to spousal benefits would increase liabilities an additional $311 million reducing the funding excess from $602 million to $291 million.

Our investment performance has permitted regular improvements to basic benefits, which have increased, on average, by 4.6% annually since 1983. In 1987, pensions generally were increased by 4.2%, equivalent to 100% of the Consumer Price Index increase over the previous year. In addition, a special increase was paid guaranteeing all pensioners at least 60% of the increase in the C.P.I. This also applied to deferred pensions and disability waiver benefits since their pensions started.

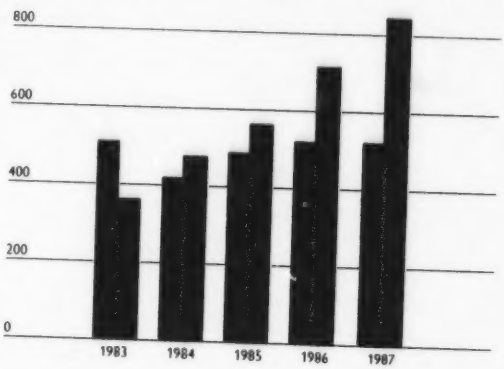
The revised Pension Benefits Act, 1987 provides for indexing of benefits, but the exact method is still to be determined by the Ontario Government. We will continue to endeavour to achieve a high level of investment returns to maintain our safety margin so as to avoid, as far as possible, increases in contribution rates.

INVESTMENT PROGRAM

OMERS' strategy of prudent diversification of assets stood the fund in good stead once again in 1987, as financial markets were rocked by insider trading scandals and by major international events.

The Third World debt problem was highlighted when many North American banks were forced to set aside additional loan loss reserves, partly in response to Brazil's unilateral moratorium on repayments. International currency markets were in continuous turmoil as the U.S. dollar continued its apparent freefall, plunging 17.2% against the Japanese Yen and 12.2% against the West German Mark. Official intervention by major central banks had little effect through most of the year.

ANNUAL INCOME
($ millions)



* Investment income includes cash income from interest, dividends etc., plus gains realized upon sale of securities. It pertains to OMERS fund only and does not include income from other plans managed by OMERS.

In the middle of this volatility, the Canadian economy was remarkably steady: a 3.9% real growth rate, inflation of 4.1% and the addition of nearly half a million new jobs to bring unemployment down to its lowest rate in over six years.

The most dramatic event in the capital markets was the late 1987 stock market decline. From its August peak to its October low, the TSE 300 stock index declined 32%, with most of the drop occurring on October 19. At the end of the year the TSE 300 was still 24% below its August high.

While OMERS did not foresee the exact timing and extent of the stock market crash, we booked $246 million in capital gains during the January-September period and began actively selling stocks in September. As OMERS' fund is broadly diversified among many investment categories, we have a good measure of protection against events such as the October "massacre".

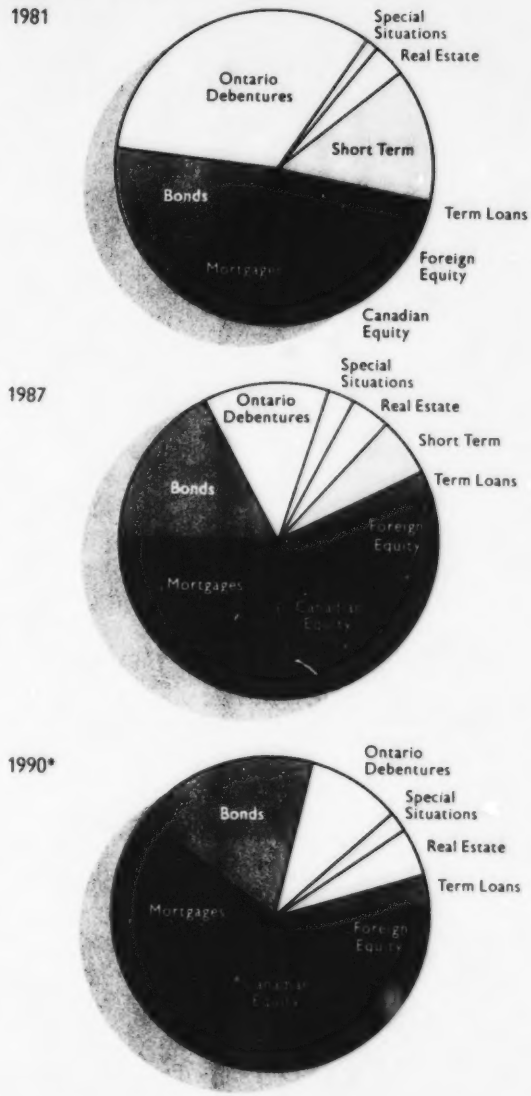
After adjusting for net contributions and income, the market value of the fund declined 7.5% from the end of September to the end of December; nevertheless, for the full year the fund still reported an overall return of 5.8%.

Every year, SEI Financial Services Limited measures the rates of return achieved by 2100 Canadian pension funds. In 1987, OMERS' 5.8% return compared to the SEI median return of 4.4%. For five of the past six years, OMERS has achieved an above median return. Our six year return of 16.7% per annum was in the top quartile of funds measured, above the median return of 15.0%.

The economic environment of the year ahead is uncertain at best, and we may see the beginnings of a downturn in the economic cycle. At OMERS, we will work to minimize the potential impact of a slowdown by continuing to follow prudent investment policies.

Our guidelines emphasize quality and selectivity of investments and our primary objective is the preservation of capital, for the benefit of our present and future membership.

EVOLUTION OF ASSET MIX



*Target based on anticipated growth in total assets relative to value of Non-Marketable Ontario Debentures

1987 Investment Highlights

EQUITIES

- OMERS realized record capital gains of $292 million on the sale of securities in 1987, of which $258 million represented gains resulting from active sales of Canadian and foreign stocks.
- At December 31, 1987, the market value of OMERS Canadian and foreign stocks represented 34.9% of total assets, compared with 38.0% one year earlier and a peak of 43.5% at the end of July, 1987.

SHORT TERM INVESTMENTS

- The combination of active sales of equities and a more cautious overall investment strategy enabled OMERS to increase its portfolio of highly liquid and secure short term investments from $226 million at the end of 1986 to $577 million at the end of 1987.

FIXED INCOME INVESTMENTS

- Total return for fixed income investments measured 6.4% in 1987, easily outperforming the SEI median return of 5.1%. OMERS' policy of portfolio diversification was especially appropriate in the stormy 1987 financial environment, as illustrated by the attractive returns achieved in mortgages (9.6%) and term loans (14.0%).

MORTGAGES

- Within the mortgage portfolio, the emphasis during 1987 was to begin establishing a better balance between commercial and residential mortgages. Commitments of $254 million were made to commercial mortgages during the year, representing 62% of total activity.
- With a total of $717 million invested and committed in the federal government's NHA non-profit housing program, OMERS remains a major source of funding for projects offering affordable housing to Canadians of limited means.

SPECIAL SITUATIONS

- After lagging total fund performance during its formative years, the Special Situations portfolio, with a 1987 return of 16.5%, led all major asset classes – the second straight year it has done so. In particular, OMERS experienced a $10.5 million gain on the sale of our $3 million original investment in Onex Packaging.

REAL ESTATE

- The Real Estate portfolio declined to $367 million by December 31, 1987 from $385 million a year earlier, primarily in response to the sale of a large direct investment during the year. Total return measured 10.2% for the year, with on-stream investments returning 12.4%. (i.e., those properties no longer in the development stage).

	OMERS Total Returns by Asset Class (%) 1987
Ontario Debentures	4.0
Marketable Bonds	4.5
Mortgages	9.6
Term Loans	14.0
Canadian Stocks	4.3
Foreign Stocks	– 2.4
Special Situations	16.5
Real Estate	10.2
Total Fund	5.8

FINANCE AND ADMINISTRATION

Growth in the number of members, pensioners and assets under administration has led to an increase in staffing and administrative expense. This is due in no small measure to the added complexity of administration as a result of the revisions to the Pension Benefits Act.

The Board authorized 22 new staffing positions during 1987, bringing OMERS' staff to a total of 164. This includes staff dedicated to the plans which OMERS manages on behalf of other public service organizations.

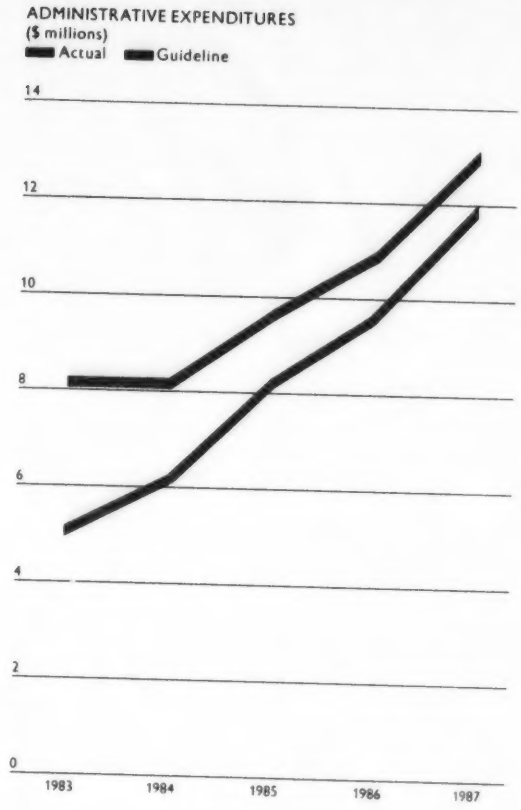
Administrative expense was $12.0 million in 1987 compared to $9.5 million in 1986. However, even at this higher level, expenditures are still below the guidelines established by the Board a number of years ago.

The guidelines allow for administrative expenses that are the sum total of:

- 1% of member and employer contributions to the basic OMERS plan;
- 1/10 of 1% of the year-end amortized cost of OMERS' capital market securities;
- management fees for the managed plans. (In 1987, we received $628,000 in fees for the managed plans compared to $576,000 in 1986.)

The purpose of the guidelines is to ensure cost-efficient operations consistent with providing employers and pensioners with a high level of service, despite uncontrollable factors such as inflation and unpredictable expenses such as the increased costs due to pension reform.

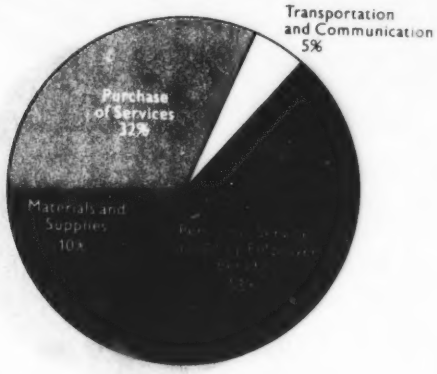
To upgrade service while strictly controlling costs, we have placed a strong emphasis on improving productivity, including greater use of personal computers as well as progressive development of the main-frame Information Services installation.



While OMERS' expenditures have increased in recent years, they are still below the expenditure guideline — indicating effective financial controls.

In 1987 we concentrated development efforts on the pension administration systems and we will continue developing these systems throughout 1988. Improvements providing for greater levels of on-line processing and enquiry capability are facilitating the implementation of changes arising from the Ontario Pension Benefits Act, 1987 and enhancement of the system is also equipping OMERS to respond promptly to future changes.

1987 ADMINISTRATIVE EXPENDITURES



OUTLOOK

The year ahead should be equally as eventful as 1987, although we anticipate a greater measure of stability in stock and capital markets. The economic environment remains uncertain; while we are seeing continued strength in the Canadian and Ontario economies, the great unknown is the impact of results of a Canadian federal election expected in the fall and the U.S. presidential election later in the year.

Other unknowns include: the details of proposed pension indexing under the Pension Benefits Act, 1987 – still to be determined by the Ontario government; the impact on pensions of potential federal tax reform methods; and potential policy changes which may result from recommendations by the Ontario Task Force on Public Sector Pension Funds.

At OMERS, we are well positioned for a range of eventualities and we are confident that the fund is in excellent shape to meet further challenges.

CONSOLIDATED BALANCE SHEET

As at December 31, 1987 (000)	1987	1986
ASSETS:		
Investments (note 2)	$8,663,869	$7,413,565
Long term receivables (note 5)	153,693	136,306
Fixed assets (note 3)	603	517
Contributions receivable	50,763	38,884
Accrued income	102,317	66,768
	$8,971,245	$7,656,040
RESERVES AND LIABILITIES:		
Reserves for:		
Basic benefits (note 4)	$7,851,760	$6,709,121
Supplementary benefits (note 5)	98,554	86,867
	$7,950,314	$6,795,988
Deposits from administered pension funds (note 6)	1,004,035	846,818
Accounts payable and accruals	16,896	13,234
	$8,971,245	$7,656,040

Signed on behalf of the Board

Member

Member

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT FUND

CONSOLIDATED STATEMENT OF THE RESERVES

For the year ended December 31, 1987 (000)	Basic Benefits Reserve 1987	1986	Supplementary Benefits Reserve 1987	1986
BALANCE – beginning of year	**$6,709,121**	$5,706,521	**$86,867**	$76,579
INCREASES IN RESERVES				
Contributions of:				
Members	**$ 238,902**	$ 220,032		
Employers, current service	**238,049**	217,044	**$ 3,581**	$ 3,998
Employers, unfunded liabilities (note 5)	**36,739**	8,372		
	$ 513,690	$ 445,448	**$ 3,581**	$ 3,998
Interest income on unfunded liabilities	**14,910**	12,545		
Income earned from investments	**936,781**	809,397	**10,625**	9,690
Management fees from administered pension funds (note 6)	**628**	576		
Transfer from supplementary benefits reserve	**2,472**	3,357		
Total increases	**$1,468,481**	$1,271,323	**$14,206**	$13,688
DECREASES IN RESERVES				
Members' pensions	**$ 165,383**	$ 133,539		
Members' contributions plus interest refunded	**36,337**	30,633	**$ 2**	$ 2
Income credited to administered pension funds (note 6)	**108,422**	92,852		
Administrative expenditures	**11,930**	9,461	**45**	41
Transfer to other pension plans	**3,770**	2,238		
Transfer to basic benefits reserve for pensions at present value			**2,472**	3,357
Total decreases	**$ 325,842**	$ 268,723	**$ 2,519**	$ 3,400
BALANCE – end of year	**$7,851,760**	$6,709,121	**$98,554**	$86,867

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 1987

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Certain of the Fund's term loan, real estate and special situation investments are held by wholly owned subsidiaries. All of the Fund's wholly owned subsidiaries have been consolidated in these financial statements.

Investments

Investments are accounted for by the cost method. Gains and losses on disposal of investments are credited or charged to income earned from investments. Income from investments is recorded on the accrual basis.

Contributions

Member and employer contributions received subsequent to the year-end, but which are applicable to the current year, are recorded as receivable.

Benefits

Payments for benefits are recorded in the year in which such payments are made.

Fixed assets

Leasehold improvements and computer equipment are recorded at cost and are amortized and depreciated, respectively, on a straight-line basis over 5 years.

2. INVESTMENTS

Investments as defined in section 8(4) and section 8(6) of The Ontario Municipal Employees Retirement System Act are subject to the regulations of the Pension Benefits Act.

(000)	1987		1986	
	Cost	**Market Value**	Cost	Market Value
Short-term deposits	**$ 576,881**	**$ 576,881**	$ 226,067	$ 226,067
Bonds and debentures	**2,821,943**	**2,692,549**	2,701,959	2,752,446
Term loans	**212,725**	**215,305**	136,723	136,723
Mortgages	**1,691,309**	**1,751,299**	1,330,120	1,426,337
Equities	**2,805,225**	**3,133,755**	2,511,923	3,119,789
Real estate	**320,889**	**366,909**	348,354	385,318
Special situations	**234,897**	**243,545**	158,419	158,419
	$8,663,869	**$8,980,243**	$7,413,565	$8,205,099

Bonds and debentures include $1,293,025,000 (1986 – $1,293,025,000) of Province of Ontario debentures bearing a weighted average interest rate of 9.07% and maturing at various dates beginning on December 31, 1993 through to December 31, 2006.

Market value is quoted value for bonds, debentures, and equities. Market value for Ontario Debentures and mortgages is computed based on market yields.

Market value for real estate is appraised value as provided by our property managers.

Commencing in 1987, the market values for term loans and special situations are estimated by management based upon the most recently available financial information. In prior years, market values were assumed to equal cost.

3. FIXED ASSETS

(000)	1987			1986
	Cost	Accumulated depreciation & amortization	Book Value Net	Net
Leasehold improvements	$ 487	$ 487	$ —	$ 37
Computer equipment	1,197	594	603	480
	$1,684	$1,081	$603	$517

4. BASIC BENEFITS RESERVE

The basic benefits reserve is maintained for the payment of pensions to retired members or their beneficiaries and the future payment of pensions and benefits to contributing members and to terminated members who have elected a deferred pension.

The latest actuarial valuation of the System as at January 1, 1987 determined the total actuarial liabilities of the System for basic benefits to be $6,466,686,000 using the unit credit actuarial cost method. The actuarially adjusted book value of accumulated assets at that date was $7,068,393,000 resulting in a funding excess of $601,707,000

The results of the actuarial valuation indicate that the existing levels of member and employer contributions are sufficient to meet the cost of benefits earned during 1987. Further, the System was fully funded as at December 31, 1987.

5. SUPPLEMENTARY BENEFITS RESERVES

Under the terms of The Ontario Municipal Employees Retirement System Act various participating employers have entered into agreements with the Board for the provision of supplementary benefits. The supplementary reserves represent the net assets available for payment of benefits under the agreements. Each employer is responsible, individually, for the funding of such benefits.

Effective January 1, 1983 all assets and liabilities with respect to prior service agreements were transferred to the supplementary reserve. On the same date, the assets and liabilities of most supplementary agreements were then transferred to the basic OMERS plan.

Where the assets transferred from the previous agreements were not sufficient to provide for the liabilities, the unfunded amounts were identified and are being paid off by the participating employers. Such unfunded liabilities are now recorded in the basic benefits reserve and are offset by a long-term receivable from the participating employers, to be paid, with interest, over a period not to exceed 15 years. For any previous agreements where the assets were in excess of liabilities, the resulting surplus was refunded to the participating employers.

Supplementary agreements entered into by employers with the Board subsequent to January 1, 1983 are subject to a final determination of the actuarial liability for benefits under each agreement. The liabilities determined under each new supplementary agreement are recorded in the basic benefits reserve and are offset by a long-term receivable from the participating employers with repayment terms similar to those stated above.

6. ADMINISTERED PENSION FUNDS

The administered pension funds which form part of the Fund and which are administered on behalf of the Ontario Council of Regents for Colleges of Applied Arts and Technology, the Ryerson Polytechnical Institute, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) are credited with amounts which are equal to the income earned by the Fund from the investment of the

monies deposited in the Fund by the administered pension funds. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

As at December 31, 1987 deposits from administered pension plans include $856,000 representing the remaining Caucus funds to be transferred with interest in 1988, to the Ontario Public Service Superannuation Fund.

7. COMMITMENTS

Total investment commitments outstanding at December 31, 1987 amounted to approximately $356 million of which $256 million relates to mortgages, $23 million to real estate, $31 million to term loans and the remaining $46 million to venture capital and other.

AUDITORS' REPORT TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD.

We have examined the consolidated balance sheet of the Ontario Municipal Employees Retirement Fund as at December 31, 1987 and the consolidated statement of the reserves for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Fund as at December 31, 1987 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants, February 29, 1988 (March 23, 1988 as to note 4)

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD ACTUARIAL COST CERTIFICATE as at December 31, 1987

The most recent actuarial valuation of the Ontario Municipal Employees Retirement System was conducted as at January 1, 1987 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Recommendations for the Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The results of the actuarial valuation disclosed total Actuarial Liabilities of $6,466,686 million in respect of benefits accrued for service prior to January 1, 1987. The Actuarial Assets at that date were $7,068,393 million indicating an actuarial surplus or Funding Excess of $601,707 million.

The results of the actuarial valuation also indicated that the existing levels of employee and employer contributions are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Acturial Liabilities during 1987, taking into account the amendments made to the Plan up to December 31, 1987. Further, we have calculated the Actuarial Assets at December 31, 1987.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1987 are sufficient to meet all the liabilities of the Plan in respect of services rendered by members up to that date.

Martin Brown

THE WYATT COMPANY, Martin J.K. Brown, F.I.A. Fellow, Canadian Institute of Actuaries
March 23, 1988

CONSOLIDATED SCHEDULE OF ADMINISTRATIVE EXPENDITURES

For the year ended December 31, 1987 (000)	1987	1986
PERSONNEL SERVICES INCLUDING EMPLOYEE BENEFITS		
Salaries of regular staff	$ 5,195	$4,233
Salaries of casual staff	423	246
Pensions	369	306
Employee benefits	404	306
	$ 6,391	$5,091
TRANSPORTATION AND COMMUNICATION		
Travel	$ 163	$ 227
Telephone	204	176
Postage and express	196	111
	$ 563	$ 514
PURCHASE OF SERVICES		
Actuarial	$ 254	$ 135
Audit	67	102
Medical	36	32
Legal	394	280
Other professional	480	492
Recruitment and training	204	71
Office rental	1,664	1,232
Computer processing	128	182
Equipment maintenance	222	109
Insurance	21	7
Board's services	161	112
Research and information	196	135
	$ 3,827	$2,889
MATERIALS AND SUPPLIES		
Furniture and equipment purchases	$ 446	$ 272
Supplies and stationery	316	223
Publications for members and employers	149	88
Office alterations	1	9
Amortization of leasehold improvements	38	216
Depreciation of fixed assets	244	200
	$ 1,194	$1,008
Total Expenditures	$11,975	$9,502

FIVE YEAR REVIEW OF FINANCIAL DATA

(000)	1987	1986	1985	1984	1983
*Investments at cost					
Provincial debentures	$1,293,025	$1,293,025	$1,293,025	$1,293,025	$1,293,025
Marketable securities	7,370,844	6,120,540	4,980,987	3,988,824	3,075,543
	$8,663,869	$7,413,565	$6,274,012	$5,281,849	$4,368,568
*Reserve for					
Basic benefits	$7,851,760	$6,709,121	$5,706,521	$4,814,414	$4,070,275
Supplementary benefits agreements	98,554	86,867	76,579	66,875	64,594
Managed plans	1,004,035	846,818	713,283	597,789	499,299
	$8,954,349	$7,642,806	$6,496,383	$5,479,078	$4,634,168
Investment income earned					
Basic plan	$ 828,359	$ 716,545	$ 569,377	$ 457,582	$ 371,133
Supplementary benefits agreements	10,625	9,690	8,289	7,036	6,715
Managed plans	108,422	92,852	73,707	60,060	47,192
	$ 947,406	$ 819,087	$ 651,373	$ 524,678	$ 425,040
Contributions received for					
Basic plan	$ 476,951	$ 437,076	$ 405,301	$ 380,769	$ 361,937
Basic plan unfunded liabilities	51,649	20,917	59,311	21,329	134,315
Supplementary benefits agreements	3,581	3,998	4,127	3,172	4,069
	$ 532,181	$ 461,991	$ 468,739	$ 405,270	$ 500,321
Payments to members					
Pensions paid	$ 165,383	$ 133,539	$ 108,092	$ 86,858	$ 69,315
Contributions and interest refunded	36,339	30,635	27,094	23,377	26,115
Transfers to other plans	3,770	2,238	1,515	1,548	1,347
	$ 205,492	$ 166,412	$ 136,701	$ 111,783	$ 96,777
Administrative expenditures and recoveries					
Pension program					
Gross	$ 5,561	$ 4,202	$ 3,573	$ 3,461	$ 2,959
Fee recoveries	673	617	565	505	513
Net	$ 4,888	$ 3,585	$ 3,008	$ 2,956	$ 2,446
Investment program	6,414	5,300	4,627	2,656	2,330
	$ 11,302	$ 8,885	$ 7,635	$ 5,612	$ 4,776
Total fund annual rates of return					
Dollar-weighted return on book value	12.2%	12.4%	11.7%	11.2%	10.7%
Time-weighted return on market value	5.8%	13.0%	23.6%	11.0%	15.7%

Unaudited figures

*The amount shown for each year as at December 31 is cumulative

FIVE YEAR REVIEW OF SELECTED DATA

	1987	1986	1985	1984	1983
*Employers					
Municipalities	512	507	504	493	490
School boards	133	132	133	133	133
Other local boards	432	430	426	426	423
	1,077	1,069	1,063	1,052	1,046
*Members contributing, employed by					
Municipalities	74,824	71,703	69,469	67,024	65,588
School boards	38,373	36,158	34,568	33,253	32,536
Other local boards	33,628	32,259	31,061	30,168	29,725
	146,825	140,120	135,098	130,445	127,849
*Members contributing					
Female	60,579	56,252	52,880	50,005	48,287
Male	86,246	83,868	82,218	80,440	79,562
	146,825	140,120	135,098	130,445	127,849
*Normal retirement age 65	129,292	122,952	116,937	112,704	110,343
*Normal retirement age 60	17,533	17,168	18,161	17,741	17,506
	146,825	140,120	135,098	130,445	127,849
*Terminated members who have elected a deferred pension	3,908	3,688	3,805	3,786	3,721
*Number of pensioners by type of pension					
Normal retirement	18,197	17,291	16,358	15,218	14,386
Early retirement	7,823	6,611	5,719	4,841	4,034
Disability retirement	2,025	1,940	1,843	1,705	1,603
Spouses and children	8,101	7,498	6,961	6,387	5,590
	36,146	33,340	30,881	28,151	25,613
*Total membership comprising Contributing members, deferred pensions and pensioners	186,879	177,148	169,784	162,382	157,183
Number of members enrolled each year	18,856	15,563	14,694	11,436	9,901
Number of members terminated each year	12,151	10,541	10,041	8,840	8,173
Net increases in membership	6,705	5,022	4,653	2,596	1,728

Unaudited figures

*Cumulative totals at year-end

OFFICERS AND DIRECTORS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD
as at December 31, 1987

Mr. C. M. Beckstead, *Chairman,*
Chief Administative Officer, City of Nepean

Mr. P. R. Burke, *Vice Chairman,*
Firefighter, City of Windsor

Mr. S. P. Dobbin,
Stationary Engineer,
Toronto Board of Education

Mr. T. D. Allan,
Police Officer, Durham Regional Police Force

Mr. T. A. Arkeveld,
Supt. of Business and Treasurer,
Leeds & Grenville County Board of Education

Mr. C. R. Bernardi,
Director of Personnel and Labour Relations,
City of Sault Ste. Marie

Mr. L. J. Close,
Director, Municipal Finance Branch,
Ministry of Municipal Affairs

Mrs. O. V. Dryden,
Commissioner – Public Utilities Commission
City of London

Miss D. F. Graber,
Administrative Supervisor, Department of Roads and Traffic, Municipality of Metropolitan Toronto

Mr. A. J. Roberts,
Consumer Relations Representative,
St. Catharines Hydro Electric Commission

Mr. B. Sinclair,
Mayor, City of Etobicoke

SENIOR STAFF

Mr. A. W. Reeve,
Executive Director

Mr. P. L. Baxter,
Director, Investment Division

Mr. A. Trafford,
Director, Pension Division

INVESTMENT POLICY COMMITTEE OF THE BOARD
as at December 31, 1987

Mr. R. M. MacIntosh, *Chairman,*
Canadian Banker's Association

Mr. J. C. C. Wansbrough, *Vice-Chairman,*
The National Trust Company

Mr. H. M. Cunningham,
Cockfield, Cooper, Cunningham
Investment Counsel Inc.

Mr. D. Pretty,
Pretty Consultants Inc.

Mr. J. B. Purdy,
Crown Life Insurance Co.

Mr. C. M. Beckstead,
Chairman of the Board

Mr. S. P. Dobbin,
Member of the Board

Mr. A. J. Roberts,
Member of the Board

Mr. A. W. Reeve,
Executive Director

Mr. P. L. Baxter,
Director, Investment Division

ADVISORS TO THE BOARD

Mr. M. J. K. Brown, F.I.A., F.C.I.A.
The Wyatt Company, Actuary

Dr. Alexander Roberts,
Medical Advisor

Mr. Maurice Coombs,
Osler, Hoskin & Harcourt, Legal Advisor

Coopers & Lybrand
Auditors